POLEMIC

Capitalism's death throes?

Chris Harman is a leading member of the Socialist Workers Party in Britain. His latest offering on capitalist crises, argues Graham Balmer, *combines useful background material with a dogmatic refusal to trace the roots of the current crisis back to a period of strong economic growth*

ZOMBIE CAPITALISM
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CHRIS HARMAN'S *Zombie Capitalism* is a combination of the many articles he has written over the years and Explaining the Crisis, his previous major economic work, published a quarter of a century ago.

In *Zombie Capitalism*, Harman, the SWP's leading economics theoretician, has produced a comprehensive introduction to the SWP's economic analysis but leaves little space for alternative interpretations by other Marxist and Left economists, a feature of Explaining the Crisis that made it such a fruitful reference.

Nevertheless, any substantial work by Harman is worthy of serious consideration, not least as a result of his pre-eminent status amongst Marxist/leftist economists. Larry Elliott, *The Guardian's* left Keynesian economics editor, referred favourably to it recently in predicting the immanent collapse of the Chinese economy.

Harman points out in the introduction that *Zombie Capitalism* has had a long gestation. The Great Recession of late 2008 intervened during its drafting and Harman's analysis of the origins of this global economic crisis is perhaps the most interesting part of the book, illustrating both the strengths and weaknesses of his analysis.

Harman traces the growth in finance and debt that presaged the outbreak of the crisis in the summer 2007, to be followed a year later by the collapse of Lehman Brothers and a devastating credit freeze which turned a financial crisis into a broad economic one. The financial/debt bubble could never be sustained but why did the dramatic growth of the unproductive financial sector with its labyrinthine financial instruments, spiralling borrowing and lending, and rising asset prices develop in the first place?

Harman is an orthodox Marxist economist in that he appreciates the centrality of the rate of profit for capitalism; the Great Depression and the end of the long post-war boom in 1973 are both practical demonstrations of Marx's famous "tendency of the rate of profit to fall" (TRPF), described principally in the third volume of Capital.

Alongside the US academic Robert Brenner, Harman considers the period from the onset of crisis in the early 1970s to the present as one of chronic stagnation. This period includes not only the crisis-torn 1970s and 1980s but continues through the 1990s and 2000s until today. Ironically while Harman rejects the idea of long waves of economic development, this is one long wave that seems to go on forever and always in the same direction . . . down.

This assertion rests critically on the idea that global rates of profit have never recovered from their low points of the early 1980s. From this mistaken premise the logic flows: the recent financial bubble must have been the response of capitalists to a lack of profitable investment opportunities in the productive sector; "world capitalism would not have become dependent on the bubble had profit rates returned to the levels of the long boom" and "financialisation provided a substitute motor, in the form of debt, for the world economy".

This forms the core of his analysis. Although he is happy to supplement it with a dose of under-consumption – the idea that crises can develop because of a lack of aggregate demand in the economy – the "debt bubble" was a form of "privatised Keynesianism" which was "central in ensuring [the productive sector] had markets that neither its own investment nor what it paid its workers could provide".

Given the importance of the rate of profit to his analysis he provides little detail – two charts and a few figures over a couple of pages – to prove his claims for stagnant profitability. A reader unfamiliar with the debate would be forgiven for believing that few dispute Harman's account of the trend in the rate of profit.

In fact the opposite is the case; all major studies by both capitalist sources, like investment banks, Goldman Sachs, UBS, JP Morgan or Morgan Stanley and a variety of Marxists confirm that profit rates up to 2007 recovered to levels not seen since the mid-1960s.

One of Harman's charts is from Gerard Dumenil and Dominique Levy's paper, *The Real and Financial Components of Profitability*. This is a very technical paper and various methods are used to calculate the rate of profit in the post-war US, but its summary does anything but support Harman's assertion. They state that:

". . . the profit rate of the nonfinancial corporate sector displays the now familiar pattern in three phases: (1) the rise into the 1960s bulge; (2) the decline from the mid-1960s to the early 1980s; (3) a recovery to the levels of the 1950s."

A second chart from Robert Brenner, *The Economics of Global Turbulence,* shows the profit rate rising from the early 1980s but never returning to the levels of the long boom. Brenner bases this assertion on profit figures for domestic manufacturing in the US, Germany and Japan. Brenner's figures show low profit rates as he excludes all those sectors of the economy in which profit has grown particularly fast since the rapid advance of globalisation in the 1990s.

He ignores profits from investments abroad which now accounts for a third of US profits, from the parasitic financial sector which now accounts for a fifth of US profits, and from executive remuneration, which has doubled as a proportion of GDP over the last two decades. Finally, both sets of data finish in 2000, before the strongest period of global profit growth in 2003-07.

Harman, reading from a chart by US Marxist Fred Moseley, "Is the US Economy Heading for a Hard Landing?", writes;

"Moseley shows a bigger recovery of recent profit rates, but his calculations still leave them at a high point (in 2004) as only marginally above their lowest points in the long boom."

But this is not Moseley's own interpretation of the data. In the same paper Moseley writes:

"It has taken a long time, but the rate of profit is now approaching the previous peaks achieved in the 1960s . . . The last several years especially, since the recession of 2001, has seen a very strong recovery of profits, as real wages have not increased at all, and productivity has increased very rapidly."

Furthermore he adds:

"And these estimates do not include the profits of US companies from their production abroad, but include only profits from domestic US production. If the profits from overseas production of US companies were added in, it would appear that the recovery of the rate of profit is pretty much complete."

Of course, this only applies to the period up to 2007. Profit rates peaked in late 2006, before marginally declining up to the autumn of 2008. They then fell very rapidly during the financial crisis last winter, although remaining at levels well above their nadir in the 1980s, before recovering from the second quarter of this year.

Harman notes, more than once, that investment in the major imperialist developed economies has remained historically low over the last two decades

This journal has previously calculated a post-war US rate of profit that concurs with Moseley. In addition however, it has emphasised that the rise in global profitability has been even more striking in the emerging economies, notably China. Harman acknowledges in the introduction that he removed much of the empirical data to make the book more accessible, but well-presented data can clarify the argument. Given that his entire analysis revolves around the correctness of this point, data is no optional extra in proving his argument. If he is wrong on this, then the whole thing collapses.

Harman notes, more than once, that investment in the major imperialist economies has remained historically low over the last two decades. Harman attributes this to low profitability, claiming that capitalists have failed to invest as a result of low profit rates. In fact there is no direct link between levels of profit and levels of investment. In the 1950s when profit rates were at their highest, investment levels as a proportion of GDP were relatively low.

High productivity meant that machines were cheap. As profit rates fell through the late 1960s and 1970s, investment rose as capitalists sought to offset rising labour costs by replacing workers with machines and as falling productivity caused machines to become relatively more expensive.

Harman views the long boom through rose tinted spectacles at times. He calls recessions of the period "growth recessions", but it is not the case that there was consistently high non-residential fixed investment throughout the period.

Although Harman accepts a "productive element" to the dotcom bubble of the late 1990s, it was still "based on speculation". Indeed, the US stock market was marked by "irrational exuberance", in Alan Greenspan's words, as telecom and hi tech shares saw their prices vastly exceeded those warranted by company profits.

But the bubble was an outgrowth, an overextension, of an investment boom which vastly raised productivity due to

the ICT revolution, the roll out of personal computers and the rapid introduction of the Internet. The technical basis of capitalist manufacturing was revolutionised, reducing the cost of labour and capital and increasing profit rates.

Harman, throughout the book, pays scant attention to the impact of productivity in revolutionising the means of production and raising profit rates. And for good reason; he has never accepted that the cheapening of the elements of constant capital (something Marx explained repeatedly – see Capital Volume 3 Chapter 5 for example) can, through increasing productivity, lower the cost of machinery, factories, offices, raw materials and so forth – and act as a very important countervailing tendency to the tendency for profit rates to fall.

Harman's figures that indicate profit rates have been falling in China over this period of rapid expansion are on his own admission dubious and contradictory

This limits the breadth of his analysis and as a result he stresses just two central countervailing tendencies that can either impede or even reverse the fall in profitability. Firstly, he points to increases in the rate of exploitation – either by increasing hours, cutting wages, etc. or through productivity gains in the consumer goods industries which cheapen the cost of living for workers and leave more profit for the capitalist.

Secondly, through crises which destroy or devalue large chunks of capital, something which, he claims the concentration and centralisation of capital – fewer and bigger companies – has diminished, as the number of companies deemed "too big to fail" has limited the ability of capitalism to rejuvenate itself through this means.

But in his haste to prove the intractability of stagnation, has Harman overlooked other factors that could, sometimes unexpectedly, provide a fillip for capitalism?

Not surprisingly, the collapse of Stalinism in the USSR, China, etc. is a blind spot for Harman. The precise nature of these economies is now an historical question, but the IS/SWP tradition of state capitalism has been a grave impediment in analysing the global economic impact of the restoration of capitalism in the previously centrally planned economies.

The "bankruptcy of whole states – notably the USSR, with a GDP that was at one stage a third or even a half that of the US", (obviously these entire states were not too big to fail) is a passing comment in a passage on corporate restructuring in the West.

Tony Cliff, in the original version of state capitalism, substituted international military competition for economic competition, but Cliff did not view the USSR within its boundaries as capitalist. On the other hand, Harman did. Hence Harman saw its demise as little more than a shift from one form of capitalism to another – from state to market.

Harman plots the development of China from Mao to the present and acknowledges its tremendous economic growth, but believes that over-investment – in many sectors, not just exports – and low employment growth has exerted a downward pressure on profitability.

He quotes the IMF: "Even compared to Korea and Japan during their boom years, the ratio [of investment to GDP] in China today looks high." He might have added that China, as part of its fiscal stimulus package, is today embarking on a programme of investment in infrastructure – transport and power – that is one of the greatest in the history of capitalism.

Such rapid investment can often result in an economy "over-heating" – the Chinese government was taking counter-cyclical measures to dampen down property speculation before the sub-prime crisis broke in 2007 – but this is a far cry from the chronic over-investment, excess capacity and an unsustainable rate of accumulation.

Harman downplays the growth of the Chinese working class over the last three decades, but even his quoted figure of a 3.5% annual increase in urban employment means that it has doubled over the last two decades. And he is really not fond of the idea that the entry of China and the other third world nations into the global economy has doubled the size of the labour force that is exploited by capital. Wonder why?

Harman's figures that indicate profit rates have been falling in China over this period of rapid expansion are on his own admission dubious and contradictory and are at odds with his own argument about the relationship between high profitability and investment. If falling profitability accounts for falling investment in the west. Why does falling profitability account for high investment in the east?

In fact all serious empirical studies of Chinese profitability (Goldman Sachs, UBS, OECD etc) demonstrate that it surged after the turn of the millennium. It was this surge of profits which funded the US credit sub-prime boom. As he explains himself:

"Along with the similar surpluses made by Japan and the oil states, [China] provided the lending which enabled US consumers and the US government to keep borrowing until the credit crunch of the summer of 2007."

But how could it have exported its surpluses if there was no surplus to export?

Earlier in the book Harman describes well the critical role of the credit system within capitalism; how it sucks in the mass of profits and redistributes them for investment, with financial institutions mediating between productive capitalists in the process of borrowing and lending. He shows how much financial capital takes the form of paper claims on future profits (Marx's "fictitious capital"), often only tenuously linked to production, which is the only sector of the economy that creates new value from labour. A precarious "shadow banking" system develops, always ripe for speculation – and implosion.

The problem arises when he attempts to relate the growth in cheap money and financialisation to profitability. He explains that:

"The rate of interest has often been confused in mainstream economic writings with the rate of profit. But in

fact the level and direction of movement of the two are quite different."

And that:

"Since the profits of productive capitalists are the major source of the funds for lending, a high rate of profit will encourage a lower rate of interest. On the other hand, if profits are low, more productive capitalists will themselves want to borrow and this will exert a pressure for interest rates to rise."

So the interest rate is determined by the supply and demand for loanable funds; if profits are high ample funds will be available and interest rates will be low, if profits are low, then vice versa.

So Harman's professed on-going stagnation-regime of low profitability implies a high rate of interest. And, indeed, during the 1970s and 1980s when profits were low interest rates were high. But since the advent of globalisation in the early 1990s, global interest rates have been historically low over the last 15 years. It is Harman who is hopelessly confused. His contention that recent bubbles must be the result of economic stagnation and low profitability is refuted by his own theory.

It is blindingly obvious that the vast pool of surplus profits made in China this century (called a "savings glut" by the bourgeois economists) and made available to the financial markets in the G7 caused interest rates to be low (reflecting the excess supply of money).

This in turn allowed for and underpinned the massive extension of credit (and debt) to firms and households hitherto denied access to it (such as low income families seeking their own homes in the USA). This inner connection between boom and bust completely escapes Harman.

Zombie Capitalism has a broad scope, covering several other areas of interest, such as the basics of Marxist economics, theories of imperialism, the state and globalisation, and the environment as a further limit to capital. But none of that is really what it is all about. Harman fails because on his central contention, around which his entire argument revolves, that profit rates fell in the period up to 2007, he is simply wrong.

And as a result the most important and contentious economic arguments contained in it disappoint given the dramatic changes in world capitalism since his last book all those years ago.